

## CHAPTER IV.      POTENTIAL EFFECTS OF CONVERTING TO BIENNIAL BUDGETING

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What is the optimal period for a budget process? In a search for the optimal period, it is easier to find losing candidates than to agree on the winner. A short period--a monthly budget process, for example--would create continuous uncertainty about government policies. Monthly budget votes would be repetitive, and would leave no time to plan or to conduct oversight. In contrast, a longer period--a five-year budget process, for example--would reduce this work load. But unanticipated events and shifts in political priorities would occur frequently during the five years, making the budget obsolete and creating pressure for revisions.

Between the inflexibility of a five-year budget and the inefficient uncertainty of a monthly budget lie annual and biennial budgeting. Proponents of biennial budgeting say that annual budgeting is nearly as unworkable as the hypothetical process of monthly budgeting. They claim that the present process features repetitive votes on the same subject, both within the year and from one year to another. Repetitive votes cause delays in making budgetary decisions that must be made, such as appropriation bills, and also crowd out other activities, such as conducting oversight and considering authorization bills.

Given these problems, proponents offer biennial budgeting as a solution. They believe that recipients of grants will be able to spend funds more efficiently with the extra year of notice made available by a biennial budget. Management of agencies is also projected to benefit, as agencies would have to prepare and defend a budget only once every two years. Agencies might also be able to purchase some goods and services at lower costs, because they could buy in larger batches and offer longer-term contracts than annual budgeting permits.

Flexibility is the base of annual budgeting's support. Annual budgeting allows quick responses to changed economic conditions, to new policy goals, to shifts in public opinion, and to election results. The Congress has also found it to be useful for monitoring and influencing the Executive Branch.

If shifting to a biennial budget schedule would gain some certainty at the cost of some flexibility, how large is this trade-off likely to be? This chapter provides some tentative answers to this question, and describes other trade-offs associated with a conversion to biennial budgeting. The analytical method is to posit four widely held goals for the budget process. These goals are:



- o Allocating time efficiently to different activities, such as planning, budgeting, and conducting oversight;
- o Completing preparation of the budget by the target date;
- o Being appropriately responsive to changed conditions;
- o Maintaining the proper influence of the Congress on policy.

The chapter analyzes how lengthening the period of budget preparation might affect the attainment of these goals.

### Allocate Time Efficiently to Different Activities

The Congress essentially undertakes three types of activities in the budget process--it gathers information about the problems the country is facing and authorizes programs to address these problems, it allocates funds to these programs, and it monitors the Executive Branch's implementation of its policy decisions. These activities often overlap; the Congress, for example, may learn about problems and the implementation of previous decisions as it considers appropriation requests.

How would the shift to a biennial schedule affect the performance of these activities? Proponents of biennial budgeting hope that some of the time now spent on budget formulation could be freed for oversight, authorizations, and district visits. This change in the mix of Members' activities could improve the quality of their work.

A distinction between biennial budgeting bills is helpful at this point. Both H.R. 22 and S. 416 would have the Congress schedule budgetary and nonbudgetary activities in different periods--an approach referred to here as the "split-sessions" approach. ("Nonbudgetary" in this context includes bills that authorize new budget authority.) S. 286 would have the Congress formulate a two-year budget over a two-year period, allowing nonbudgetary and budgetary activities to be interspersed during this time--referred to here as the "stretch" approach.

The split-sessions approach assumes that the Congress would postpone budgetary action on issues new to its agenda such as drug abuse or the plight of the homeless if these issues arose during a non-budgetary year. One supplemental appropriation bill would be expected in the nonbudgetary year, but it would be used only to provide appropriations for true emergencies. The split-sessions model similarly expects that the Congress would not conduct oversight during a budget



year, though exceptions could be made for major scandals or controversies.

This approach might not succeed unless the Congress were to revise significantly its rules of procedure. The current rules would not provide a formal means of limiting consideration of spending bills during nonbudgetary periods, and in the absence of such rules, there would be frequent attempts to amend the budget during nonbudgetary periods. Such limiting rules could take various forms, including not allowing the Congress to consider budgetary matters during nonbudgetary periods unless the President requested such action, and limiting supplemental appropriations to project-specific deficiency appropriations or to cases in which statutorily defined "emergency" conditions have been met. 1/

Implementing limiting rules, such as defining "true" emergencies ahead of time, would be difficult. The split-sessions bills do not propose any such rules, and few of the states with biennial budgets and annual sessions have them. Some states that do not revise the budget during the off-year have relied instead on self-restraint, particularly when the nonbudgetary period immediately precedes an election. Others have been lucky, not being presented with unforeseen revenue losses that would have caused balanced budget requirements to be violated.

Split sessions imply substantial modifications to committee activities as well. The current committee structure gives specialized roles to various committees. The Budget Committees spend most of their time preparing and adopting the budget, and relatively little in monitoring spending by the agencies. The Appropriations Committees monitor spending, but almost always in the context of appropriating more funds. The House Government Operations and Senate Governmental Affairs Committees and the subcommittees of many other standing committees specialize in oversight. Unless these committees' responsibilities are changed, the Budget and Appropriations Committees are expected to be inactive during the nonbudgetary periods, as are the oversight committees during budgetary periods.

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1. Similar rules might profitably be applied to supplementals and rescissions under annual budgeting. Pay raises, now provided in supplemental bills, could easily be incorporated into the regular appropriation bills. Section 207 of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 prohibited the President from repeatedly proposing similar rescission requests.



These potential changes in rules and committee activities heighten the importance of determining whether the process of making budgetary allocations has in fact crowded out authorizing legislation and oversight. The relationship between the budget process and the frequency of authorizing legislation is discussed in the last section. Regarding oversight, research by Joel Aberbach suggests that oversight has not been discouraged by the Congressional budget process. Aberbach compiled data for the number of total and oversight committee hearing days in the first six months of odd years from 1961 to 1983, excluding 1979. <sup>2/</sup> Table 3 shows these data. The time-series shows a sharp increase in the proportion of days devoted to oversight from 1973 to 1975, and another sharp increase from 1981 to 1983. In 1983, a full quarter of hearing days were for oversight, more than double the proportion in 1973. Aberbach concludes that this growth in oversight activities is the result of a variety of factors: budget deficits, public discontent with government performance, Congressional concern about the usurpation of legislative powers by the Executive Branch, and the availability of more Congressional staff to carry out oversight. <sup>3/</sup>

Aberbach counted as oversight hearings only those in which the "review of administrative actions" was the main activity. Reauthorization hearings were excluded. Many advocates of biennial budgeting, however, define oversight much more broadly. Under H.R. 22, for example, the "oversight period" during the first six months of a Congress would be devoted to reviewing policy goals and results. All the bills would have the Congress establish policy and program goals in advance authorizing legislation before the budget is considered.

A period set aside for taking stock and planning could be helpful for the Congress, which often focuses much of its energy on the issue of the moment. Similarly, advance authorizations might produce more informed appropriation decisions. These types of scheduling reforms view the Congress as an institution that could follow a very structured process for solving problems. But the role of the Congress as a sounding board for the public's interests may make a structured schedule unattainable.

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2. Joel D. Aberbach, *Keeping a Watchful Eye: The Politics of Congressional Oversight* (Washington, D.C.: Brookings Institution, forthcoming).
  3. See also Joel D. Aberbach, "The Congressional Committee Intelligence System: Information, Oversight, and Change," *Congress and the Presidency*, vol. 14 (Spring 1987), pp. 51-76. Another useful source on oversight is the *Congressional Oversight Manual*, prepared by the Congressional Research Service, February 1984.





**TABLE 3. HEARING AND MEETING ACTIVITIES  
OF CONGRESSIONAL COMMITTEES,  
JANUARY 1-JULY 4**

Year	Total Days	Oversight Days	Oversight as Percent of Total
1961	1,789	146	8.2
1963	1,820	159	8.7
1965	2,055	141	6.9
1967	1,797	171	9.5
1969	1,804	217	12.0
1971	2,063	187	9.1
1973	2,513	290	11.5
1975	2,552	459	18.0
1977	3,053	537	17.6
1981	2,222	434	19.5
1983	2,331	587	25.2

**SOURCE:** Joel D. Aberbach, *Keeping a Watchful Eye: The Politics of Congressional Oversight* (Washington, D.C.: Brookings Institution, forthcoming). Data for 1981 and 1983 are subject to final revision.

**NOTE:** Activities of Appropriations, Rules, Administration, and Joint Committees have been excluded. Data for 1979, 1985, and 1987 are currently being coded.



## Complete Preparation of the Budget by the Target Date

The stretch model would spread budget formulation over a two-year period, giving more time for each stage to be completed. This approach assumes that target dates are missed because there is not enough time between each date--for example, when the budget resolution is late, this leads to unpassed appropriation bills and a continuing resolution. Preparing a budget over two years could allow more time for consultation, and make it more likely that decisions would be made on time.

Though the current schedule may be a cause of the time-consuming and repetitive nature of the budget process, other factors are probably even more important. One structural barrier to quick and binding decisions is the bicameral requirement that the House and Senate agree on all laws. Another is the separation of powers. Some missed target dates and repetitive votes clearly can be attributed to the difficulty of reaching a compromise between the strongly held positions of the President and the Congress. Biennial budgeting is not likely to facilitate such a compromise. Instead, it might increase the difficulty of reaching a compromise if agreements had to be negotiated for two years rather than for one. With the stakes higher, a two-year budget negotiation might take longer than two separate one-year negotiations. To repeat an observation made above, some states have found annual budgeting more useful than their traditional biennial practices during periods of divided partisan control.

Other causes of repetition and delay may be more subject to change. The Congress is a legislature, to which each Member comes with one vote and a presumptive equal say in decisions. A natural result is that the Congress uses a decentralized form of internal organization, distributing decisionmaking powers widely among its Members. It does this in several ways. It divides its responsibilities among authorizing committees and appropriations committees, and these committees make similar types of decisions. The Congress also follows a very complicated budget process that is intended to control the decisions made in the authorization and appropriation processes. Delay and repetition might be reduced by adopting another form of internal organization and another budgeting procedure. In other words, in contrast to biennial budgeting, which would have the Congress prepare fewer budgets, the Congress might make fewer decisions during budget preparation.

The "fewer decisions" approach is embodied in a number of reform proposals, two of which will be described here generally. Both reforms would centralize power over budgetary decisions. In one approach, the



Congress would combine the appropriations and authorizations committees and processes. In another, the Congress would adopt an omnibus budget procedure that would combine the aggregate budget resolution, appropriation bills, and reconciliation into a single bill.

Combined Authorizations and Appropriations Committees. A widespread belief is that the appropriations and authorizing committees should have separate and different roles. The authorizing committees are supposed to make substantive policy by establishing goals and designing programs, and the appropriations committees are supposed to make line-item reviews of agency budgets and then provide appropriations. House and Senate rules establish various points of order to encourage the separation of these activities.

In practice, there has been and is a great deal of blurring of the appropriation and authorization processes. 4/ Both processes currently are used to set policy and allocate funds. Policy is set in appropriation bills through riders. Such "legislative" language in appropriation bills is technically subject to a point of order, but this obstacle is often overcome through waivers or by placing legislative language in continuing resolutions to which the point of order does not apply. Authorizing bills provide permanent appropriations and other forms of "backdoor" spending. In addition, authorizing bills often set line-item floors and ceilings on the amounts that may be appropriated. 5/

It is quite difficult to measure the extent to which the appropriation bills "make policy" and the authorization bills allocate funds. One method is to compare the forms of decisions made during the two processes. These forms are quite similar in the defense area. Annual authorizations and appropriations are routinely enacted for defense programs, and the committees make decisions using the same account

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4. Discussions of the historical relationships between the authorization and appropriation processes are available in Allen Schick, "Legislation, Appropriations, and Budgets: The Development of Spending Decision-Making in Congress" (Congressional Research Service, May 1984); Louis Fisher, "The Authorization-Appropriations Process: Formal Rules and Informal Practices" (Congressional Research Service, August 1, 1979); and W. Thomas Wander, "Patterns of Change in the Congressional Budget Process, 1865-1974," *Congress and the Presidency*, vol. 9 (Autumn 1982), pp. 23-49.
  5. That many authorizations are budgetary in nature suggests that enacting advance authorizations would not limit off-year activities to nonbudgetary ones. On the various approaches to multiyear and advance authorizations, see Stanley I. Bach, "Approaches to the Issue of Unauthorized Appropriations" (Congressional Research Service, July 31, 1978).



and program structure. In contrast, the forms of nondefense authorization and appropriation decisions are often dissimilar. Most authorizations for nondefense discretionary appropriations are enacted for multiyear periods or are permanent, and the line-item units of authorizations often do not directly correspond to the lump-sum appropriation account structure. An initial conclusion, then, is that the overlap between appropriations and authorizations is probably greatest in the defense area.

Advocates of consolidation argue, however, that the similarity of the forms of outcomes or of the outcomes themselves is not that important. In theory, the Congress relies on committees to reap the advantages of specialization--expertise and an efficient division of labor. These advantages are not fully realized when two committees are established to deal with the same topic and when their bills are considered separately. When the two committees agree on policy goals, there would seem to be no benefit from first considering the authorization bill and then considering the appropriation bill. This duplication is simply a waste of time if similar amendments to each bill can be proposed from the floor. When the two committees disagree over policy, the case against duplication is still strong, if the bills can be freely amended on the floor. In this case, duplication encourages conflict, which slows up the process. Those who find the current degree of overlap to be large and unnecessary suggest that consolidation of the appropriations and authorizations committees and processes is an obvious way of increasing decisionmaking efficiency. 6/

The opposing view accepts "duplication," to the extent that it is admitted to exist, as beneficial. Redundancy of processes is useful, it is said, to reverse policy direction when conditions unexpectedly change, to reconsider a close division on a controversial issue, or to hold the Executive Branch to a bargain. Furthermore, supporters of the status quo claim that the different forms of appropriation and authorization decisions indicate that the two processes do not substantially overlap. They believe that the two types of committees bring different per-

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6. The Congress has infrequently adopted major committee reforms to reduce overlaps. Landmark reforms were the Legislative Reorganization Act of 1946 and the Senate's acceptance in 1977 of the recommendations of the Stevenson Committee (the Temporary Select Committee to Study the Senate Committee System). In the 100th Congress, S. Res. 260, introduced by Senators Kassebaum and Inouye, would combine the appropriation and authorization processes. It would abolish the Senate Budget Committee and transfer its responsibilities to a "Committee on National Priorities," which would be constituted as a supercommittee of leaders of the other committees.





spectives and skills to their tasks, and that the resulting competition among committees produces better outcomes. Finally, committee memberships, leadership positions, and staffs are valuable assets to Members, as are committee jobs to staffers. Any reform plan would have to promise substantial benefits to offset the costs of lost committee seniority and other assets. 7/

An Omnibus Budget Procedure. The other approach to making fewer decisions within the budget process is the omnibus budget procedure (also known as the Obey plan, after its main sponsor, Congressman Obey). In this procedure, the House Budget Committee would report a budget plan by April 15. This plan would serve as a guide for committee actions, but it would not be debated and voted on the floor. The committees would report separate bills for appropriations, revenues, and direct spending programs, and these bills would be packaged into an omnibus bill by the House Rules Committee. The bill would then be considered on the floor, and the House Budget Committee could offer privileged amendments to the titles of the omnibus bill that exceeded the targets in the budget plan. 8/

The essence of the omnibus reform is that there would be no vote on the House Budget Committee's plan. Because the current budget resolution is only a guideline for further action, the Congress sometimes considers the same issues twice--once during preparation of the budget resolution, and again when the actual budget is passed. (The debate may actually occur three times for programs being authorized in that year.) The votes on programmatic issues in the budget resolution are said to delay its adoption as well as slow consideration of appropriation bills. The omnibus reformers would have the Congress discard point of order and reconciliation enforcement procedures and vote only on actual budget allocations.

Opponents of the omnibus procedure suggest that it would not be workable. Spending committees would probably not feel bound to stay within the Budget Committee's plan unless the committees had en-

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7. Useful sources on committee reform are Roger H. Davidson and Walter J. Oleszek, *Congress Against Itself* (Bloomington, Indiana: Indiana University Press, 1977); and Congressional Quarterly Inc., "The Committee System," *Guide to the Congress*, 3rd ed. (Washington, D.C.: CQ Press, 1982), particularly pp. 466-476.

8. A useful analysis of omnibus budgeting is provided by Allen Schick, "The Whole and the Parts: Piecemeal and Integrated Approaches to Congressional Budgeting," House Budget Committee, Serial CP-3 (February 1987).



dorsed it with a floor vote. Because the omnibus bill would be "must" legislation, it likely would attract many unrelated amendments. Some believe that it would be difficult to construct a majority for an omnibus bill because of objectionable provisions; others fear that logrolling would increase the totals of the omnibus bill.

Many Members and the President complain about the current reliance on the similar continuing resolution procedure. Besides the costs of brinksmanship, the difficulty of understanding and amending continuing resolutions disturbs those who are not members of the Appropriations Committees. From President Reagan's perspective, omnibus bills make it more difficult to exercise the veto and thus strengthen the need for an item veto. 9/

Regardless of whether these "fewer decision" reforms or a stretch model of biennial budgeting is adopted, delay and repetition in budgeting will not be eliminated. The famous "Parkinson's Law," which states that "Work expands to fill the time available for its completion," has a corollary: "A budget decision is not made until a deadline approaches." Delay and repetition are endemic to budgeting, because budgeting is a comprehensive process that resolves macro and micro goals into practical plans.

Even postponing the beginning of the fiscal year did not foster completing appropriation bills on time. Prior to the Congressional Budget Act, late enactment of appropriation bills was a continual problem--46 percent of regular appropriation bills were enacted after the beginning of the fiscal year from 1968 to 1973. 10/ The Congress--acting on the belief that when a deadline is routinely not met, permanently extending that deadline will solve the problem--moved the beginning of the fiscal year from July 1 to October 1. Yet, appropriation bills are still not completed by the beginning of the fiscal year.

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9. As evidence that an omnibus procedure would not work, opponents point to the 1950 omnibus appropriation bill. The bill was approved five weeks after the beginning of the fiscal year, but two calendar months before the passage of the last appropriation bill in the previous year. The omnibus procedure was discarded by the House and Senate Appropriations Committees the next year, in part because of opposition from the House leadership. See Dalmas H. Nelson, "The Omnibus Appropriations Act of 1950," *The Journal of Politics* vol. 15 (May 1953), pp. 274-288; and George B. Galloway, "Consolidated Appropriation Bill," Legislative Reference Service, Library of Congress (October 15, 1953).

10. This figure was calculated from data in General Accounting Office, "Funding Gaps Jeopardize Federal Government Operations" (March 3, 1981).



Additional evidence that repetition and delay cannot be avoided is seen in the budgeting experiences of the Executive Branch. Budget iterations between the Office of Management and Budget and agencies, which are similar to what is called duplication in the Congress, are frequent. A good example in this Administration has been the continual battle over defense spending, which started each year with the planning targets and continued all the way through the Director's Review. The Executive Branch has also often found it difficult to meet the dates set out in its budget preparation schedule.

### Be Appropriately Responsive to Changed Conditions

The Congress is first and foremost a political body, designed to represent the interests and desires of the public. It consequently often revises previous decisions when public opinion changes. Given this special characteristic of the Congress, determining when to revise decisions becomes a balancing act. If the Congress were to make irreversible decisions, it would be foreclosing the opportunity for the public to change its mind (as the public itself changed its composition). Yet, if it were to always allow the national mood--which is often quite variable--to be quickly expressed as policy, it would be making "decisions" that would never stick.

The Congress responds not only to changes in public opinion, but also to macroeconomic, programmatic, and other political events. Only one type of event follows a completely predictable schedule: elections. The biennial budgeting bills differ in their choice of whether the biennium should begin before or after an election. Both H.R. 22 and S. 286 schedule adoption of the budget just before an election. By placing these dates so closely together, these bills might clarify the policy choices that each party presents to the voters. On the other hand, if the electorate dislikes these choices and votes the majority party out of office, the new majority would theoretically be unable to adopt its program for two years. In the past, election results have had significant effects on budget priorities, particularly when a change in Presidential administrations occurs. It is likely, therefore, that the new majority would completely revise the recently adopted budget.

In contrast, S. 416 would have the Congress adopt a budget on a date that is roughly a year after an election and a year before an election. This schedule would allow the Congress to adopt a budget that reflected an election mandate, and permit the public to evaluate the Congress on the basis of a year's operation of this budget. But an upcoming



election, particularly one coincident with a recession, might lead the Congress to revise the budget during the nonbudget year. 11/

The timing and magnitude of other events that might lead to Congressional action are harder to predict. By expanding the length of the budget period from one to two years, projection errors are likely to increase. Larger errors will increase pressure on the Congress to take action. If the Congress responds, some of the reductions in work load expected from biennial budgeting will not be realized.

The greatest source of uncertainty in budget estimates is the inherent unpredictability of the economy. To estimate the effect of making a two-year forecast on the accuracy of budget estimates, a simulation test used in the Congressional Budget Office's August 1987 report, *The Economic and Budget Outlook: An Update*, was extended for another year. 12/ Table 4 shows the results. This test used a time-series model to forecast gross national product (GNP) for fiscal years 1988 and 1989. For 1988, simulating the time-series model 5,000 times (by introducing alternative random shocks) produced a standard deviation for GNP forecasts of \$193 billion. The standard deviation is a statistical measure of the dispersion of individual forecasts around the average. It indicates that, given certain assumptions, GNP forecasts will differ from the actual GNP by less than \$193 billion about 68 percent of the time. The same procedure produced a standard deviation of \$226.6 billion for the fiscal year 1988-1989 biennium. These uncertainty ranges may be translated into ranges for revenue estimates by using a rule of thumb that shows that a \$100 billion error in estimating the GNP will tend to result in a \$23 billion error in revenues. This produces a standard deviation for revenue estimates of \$44 billion for the first year and \$52 billion for the biennium. Because actual CBO forecast methodologies differ from the mechanical methods used in this test, the results should be understood as illustrative of the increased

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11. On the relationship between elections and changes in budget allocations, see D. Roderick Kiewiet and Mathew D. McCubbins, "Congressional Appropriations and the Electoral Connection," *Journal of Politics*, vol. 47 (February 1985), pp. 59-82.

12. See pp. 85-86 and 94.





TABLE 4. SIMULATION OF UNCERTAINTY IN FORECASTS OF GROSS NATIONAL PRODUCT AND REVENUES FOR FISCAL YEARS 1988 AND 1989 (All figures in billions of current dollars, except CV)

Fiscal Year	Gross National Product		Revenues	
	Mean	Standard Deviation	Standard Deviation	Coefficient of Variation (CV) <sup>a/</sup>
1988	4,759.4	192.6	44.3	1.79
1989	5,093.3	275.3	63.3	3.42
Two-Year Average	4,926.4	226.6	52.1	2.40

SOURCE: Congressional Budget Office calculations based on data in CBO, *The Economic and Budget Outlook: An Update* (August 1987), and on CBO simulations of a time-series model for forecasting GNP for fiscal years 1988 and 1989.

NOTE: The correlation between fiscal years 1988 and 1989 is 0.87.

a. The coefficient of variation (CV) is the variance of revenues divided by the mean of revenues. The CV is a scale-free number.

uncertainty in GNP forecasts under biennial budgeting, not as a prediction of CBO's likely performance. <sup>13/</sup>

A concrete example of the potential effect of economic uncertainty on biennial budget projections comes from CBO's most recent budget projection. <sup>14/</sup> In November 1987, the fiscal year 1989 budget baseline deficit was estimated to be \$186 billion. This estimate was based on CBO's August economic assumptions. The Congress then passed legislation that yielded \$36 billion in savings for fiscal year 1989. In February, however, CBO projected the fiscal year 1989 baseline deficit to be \$176 billion, an increase of \$26 billion from the November baseline adjusted for enacted legislation. This increase was caused primarily by a forecast of slower growth in the economy. If a similar forecast is used by OMB on July 15, 1988, the Congress would need to make additional

13. See also David C. Grinnel, "Implications of Uncertainty in Economic Forecasting Under Gramm-Rudman-Hollings: Options for Congressional Response" (Congressional Research Service, August 8, 1986).

14. CBO, *The Economic and Budget Outlook: Fiscal Years 1989-1993*, (February 1988).



cuts beyond those envisioned in the summit agreement in order to prevent sequestration. 15/

The likely change in projection errors for individual programs is much harder to predict. 16/ Some out-year budget projections for programs could become more realistic under biennial budgeting. Some agency budget estimates currently are too low, apparently because the agencies believe that it would be politically unwise to show the likely long-run costs of programs. In other cases, agency estimates are too high, sometimes to prompt agency contract officers to speed up operations. The incentives to make such misestimates would probably be reduced if appropriations were routinely made for two years. In addition, program characteristics would allow some projection errors to cancel out in two years that would not in one year. Spendout rates for procurement programs could exhibit this effect. For other programs, including many entitlement programs, errors would tend to cumulate.

Increased errors in budget projections would have several effects. At the macro level, it would make it harder to hit a planned deficit target and would give the appearance of losing control over fiscal policy. But part of the reason for missing deficit targets is the feedback of the economy on the deficit, causing the deficit to rise when the economy underperforms. From this perspective, unexpected changes in the economy that produce shifts in deficit projections should not lead to Congressional responses, making the increased uncertainty associated with biennial budgeting less of a problem.

Increased errors in budget projections could be more of a problem at the micro level. Though errors caused by inaccurate assumptions tend to be partially offsetting in the aggregate, they are often large for individual programs. These errors may lead to pressure to consider supplemental appropriations or rescind funds for some activities.

Consider some of the effects of unanticipated changes in interest rates, which are among the most uncertain economic forecast variables. At the program level, a rise in interest rates deepens the subsidies granted by fixed-rate loan programs, thus increasing the demand for loans. If the Congress wanted to reduce the actual subsidies to the planned amounts, it would have to pass bills that increased the fixed

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15. On October 15, 1988, OMB will determine the actual savings required to meet the deficit reduction targets.

16. Policy changes in the budget year distort the previous year's out-year baseline estimates for programs, making an estimate of the change in technical projection errors unreliable.



rates. If the Congress had limited the programs through ceilings on spending, it would have to raise the ceiling if it wanted to provide the deeper subsidy to all applicants. A similar situation would occur for variable-rate loan programs when interest rates declined. Alternatively, the Congress could decide to accept these effects and not take any action, or it could design credit programs that automatically respond to changes in interest rates.

When prices increase unexpectedly, planned purchases of goods and services become more expensive. Under current budget procedures, increased costs would require supplementals for purchases of minimum quantities of necessary goods, such as fuel for the military. Price decreases, on the other hand, could leave agencies overfunded and able to buy more than the Congress intended, which might lead the Congress and the President to consider rescissions.

Not all accounts are sensitive to these and similar uncertainties. Many accounts are for pay and benefits and are very stable. In addition, there are a number of procedures that could allow the Congress to cope with the increased uncertainty of a two-year budget period. The Congress could decide not to respond to minor changes in economic conditions with legislation, and it could automatically adjust the budget resolution for these changes. Pro forma appropriations for appropriated entitlements (such as Medicaid) and for other programs such as the Commodity Credit Corporation could be converted into permanent appropriations. Price variability could be dealt with through new methods of contracting and budgeting for inflation. <sup>17/</sup> A single supplemental could be scheduled for the off-year with rules that would prevent funding for programs not previously authorized.

Other proposals for reducing uncertainty could effectively eliminate some of the potential gains from biennial budgeting. One example would be the practice of simultaneously providing two separate years of appropriations, each with one-year availability. Because the Congress could rescind the second year of funding before it would be obligated, contractors would still charge a premium to compensate for this risk. This would prevent agencies from purchasing goods and services in quantities large enough to minimize prices. <sup>18/</sup>

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17. See Congressional Budget Office, *Budgeting for Defense Inflation* (January 1986).

18. See Congressional Budget Office, *Assessing the Effectiveness of Milestone Budgeting* (July 1987), for a discussion of these and related topics.



## Maintain the Influence of the Congress on Policy

One trade-off offered by biennial budgeting is that the Congress would replace annual appropriations with more program planning and oversight. How would this change affect the ability of the Congress to properly influence policy? Proponents of biennial budgeting claim that this change in activities would uncover problems not currently detected in appropriation reviews, allowing the Congress to address them. Opponents counter that these benefits would not offset the loss of influence that would result from forgoing the opportunity to make budget allocations annually.

This debate is not about the value of routine annual interactions between the Congress and the President, for it is generally agreed that annual interactions promote cooperation between the two branches. <sup>19</sup>/ Cooperation has two components--trust by the Congress that the Executive Branch will implement its directives, and respect by the Executive Branch for the Congress's right to make these directives. The debate is instead about which types of annual interactions promote the most trust and respect, and thus maintain the influence of the Congress on policy.

Throughout its history, the Congress has resolved this issue by following an annual process of making allocations. One way that annual appropriations increase its leverage over the Executive Branch is in providing vehicles for policy riders. Policy riders become starting points for negotiations between the branches because of the "must-pass" character of appropriation bills--if these bills are not enacted, government agencies that lack spending authority must shut down. Even though the Congress often shares the blame for shutdowns, potential shutdowns place pressure on the Executive Branch to negotiate. In the absence of "must-pass" legislative vehicles, the Executive Branch

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19. For a convincing presentation of the argument that cooperation is encouraged by frequent interaction, see Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984). On annuality and cooperation in budgeting, see Aaron Wildavsky, *The Politics of the Budgetary Process*, 4th ed. (Boston: Little, Brown, 1984); and Richard F. Fenno, Jr., *The Power of the Purse* (Boston: Little, Brown, 1966).





would usually not negotiate on policy disputes to the degree that it does now. 20/

Annual appropriations also encourage the Executive Branch to implement the budget in good faith. If agency expenditures are inconsistent with Congressional intent, the Congress may then influence the Administration by withholding approval of its pending appropriation requests (though the Administration may doubt the credibility of such threats). Under the split-sessions model of biennial budgeting, the Congress would instead have to rely on oversight to monitor agency spending and to prod the Executive Branch to spend appropriated funds properly. But oversight can be ineffective when the Administration lacks concern about violating Congressional intent. 21/

The Congress has also used annual authorizations, which often establish spending floors and ceilings in great detail, to order compliance with its goals. 22/ The rules of the Congress establish points of order against unauthorized appropriations, making authorizations priority legislation. Exceptions to these rules, however, are increasingly common. Exceptions are important because as long as appropriations are enacted, funds may be obligated by agencies, regardless of whether annual authorizations have been enacted. These exceptions and the willingness of President Reagan to veto authorizations have led to reductions in the rates of consideration and passage of annual authorizations in the 1980s, which has lessened the utility of annual authorizations for exercising Congressional influence.

The desire for flexibility is another reason for annually considering budget resolutions and making appropriations. Many consider annual budgeting to be the only responsible course of action with large deficits, because it allows recurring efforts to find political compromises

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20. On the value of riders, see Roger H. Davidson, "Procedures and Politics in Congress," in Gilbert Y. Steiner, ed., *The Abortion Dispute and the American System* (Washington, D.C.: Brookings Institution, 1983), pp. 30-46, especially p. 45; and Allen Schick, "Politics through Law: Congressional Limitations on Executive Discretion," in Anthony King, *Both Ends of the Avenue* (Washington, D.C.: American Enterprise Institute, 1983), pp. 154-184, especially pp. 171-173.

21. See James L. Sundquist, *The Decline and Resurgence of Congress* (Washington, D.C.: Brookings Institution, 1981), chapter 11. See also Louis Fisher, *Presidential Spending Power* (Princeton: Princeton University Press, 1975); chapter 4 provides examples of reprogramming procedures that had not been honored by agencies, leading committees to restate and tighten procedures or to take punitive actions.

22. Louis Fisher, "Annual Authorizations: Durable Roadblocks to Biennial Budgeting," *Public Budgeting and Finance*, vol. 3 (Spring 1983), pp. 23-40.



on deficit reductions. The deficits have caused continued use of the reconciliation procedure to retrench spending in mandatory programs. Flexibility is also the reason why almost all salary and expense accounts are appropriated annually, even though they are the least complex and most predictable accounts of all. 23/

Proponents of biennial budgeting do not agree that these traditional methods of preserving influence and flexibility are as effective as generally thought. They argue that the Congress is organizationally limited in what it can do each year. They also note that the Congress has decided that annual allocations are unnecessary or counter-productive for many programs. The Congress does not vote annually to allocate funds to Social Security and some other entitlement programs, for example, because there is a consensus that these programs are long-term commitments. Nor does it vote appropriations annually to pay interest on the national debt or to fund a multiyear ship contract in annual stages. As a result of similar decisions for other programs, only a fourth of appropriations have been annual appropriations of one-year availability.

Also disturbing to proponents of biennial budgeting are the costs of annual budgeting to those who carry out policies. Annual budgeting is said to encourage "micromanagement"--the assumption by the Congress of what are typically the responsibilities of program managers. Many agencies claim that line-item directives in annual appropriation and authorization bills would reduce the number of directives. If, however, the Congress places directives in bills because it fears that agencies will spend money inappropriately, biennial authorizations and appropriations could contain even more "micromanagement" provisions.

Statements that agency officials will save time and paperwork because they will not have to prepare and justify their budgets each year may be overly optimistic as well. One presumption of biennial budgeting is that the Congress will do more oversight. For the Congress to conduct performance reviews, those doing the performing will presumably have to respond to the requests of the Congress. The format of agency presentations to the Congress might well change, as may the officials who do presentations (line officials instead of budget officials), but agencies' work loads will probably not decline if the Congress vigorously conducts oversight.

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23. The Congress acted in 1934, 1946, 1966, 1970, and 1974 to repeal or study the repeal of permanent appropriations in order to increase flexibility. See Michael D. Margeson and James Saturno, "Congressional Approaches to Biennial Budgeting" (Congressional Research Service, July 27, 1987), p. 9.



Another purported benefit from biennial budgeting has been that it would give grantees--usually state and local governments--earlier knowledge of available funding and allow them to spend money more efficiently. Although this idea has merit, the extent of the benefit would be limited. In the first place, many grants are already predictable. Nearly two-thirds of grants are mandatory, and most mandatory grants are allocated by formulas. An additional 6 percent of grants, in the education area, are forward funded. Forward funding allows an agency to make grants in one fiscal year for the succeeding fiscal year. <sup>24/</sup> To the extent that reconciliation or rescissions do not change these budgeted amounts, grantees already know with some certainty the funds that they will receive. For the remaining grants, the benefit of earlier knowledge from biennial budgeting would apply to only the second year of the biennium, because the grants for the first year of the biennium would be made shortly after the adoption of the budget. <sup>25/</sup>

Thus, though the efficiency of budgeting would not increase dramatically under a biennial format, some improvement is likely. This biennial approach could be enhanced by a budgetwide reexamination of the periodicity of budget reviews at the program and project level. Programs that are funded by annual, one-year availability appropriations have traditionally borne the brunt of budget reductions, a tradition that was carried on by the Balanced Budget Act's sequester procedures. Agencies often claim that reductions in these appropriations are of the penny-wise, pound-foolish variety. They commonly cite their failure to make needed investments because appropriations are cut, even though the investments would reduce operating and total costs in the long run. This effect, and the more general risk of budget reductions, encourages agencies to convert their programs into the form of mandatory spending. In the long run, this locks in spending and leads to less flexibility in the total budget.

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24. A number of other grant programs in the education area are authorized to receive advance appropriations, but these appropriations have not been provided.
  25. Section 502(c) of the Congressional Budget Act mandated two reports on advance budgeting, published as Congressional Budget Office, "Advance Budgeting: A Report to the Congress" (March 1977); and Office of Management and Budget, "A Study of the Advisability of Submitting the President's Budget and Enacting Budget Authority in Advance of the Current Timetable" (1977). The CBO report cautiously supported reauthorization of grant programs a year before the expiration of the existing authorization. The report also outlined a process for considering which programs could be appropriated on a two-year schedule. The OMB report concluded that advance funding would cause too great a loss of flexibility in the budget year, and proposed the alternative of including in the budget "target amounts" of planned grant appropriations for two out-years.



An alternative means of increasing flexibility would be to strengthen controls on mandatory spending, which would require improved recognition of the full costs of potential multiyear commitments when considering whether to enter into them. It would also require that mandatory spending be reauthorized periodically and subjected to a tough reconciliation procedure. Biennial budgeting might contribute to this approach by shifting the perspective from one year to two, thereby reducing the fixation on one-year spending cuts and making false savings from effective date changes less attractive. With the resulting increase in flexibility in these accounts, the selective biennial approach suggested by the Balanced Budget Reaffirmation Act could be followed with fewer grounds for concern about the loss of flexibility. For example, multiyear authorizations and appropriations could be made for stages of long-term procurements, rather than providing appropriations for variable numbers of units in each 26/

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26. See Congressional Budget Office, *Assessing the Effectiveness of Milestone Budgeting*.

